



TEXAS A&M UNIVERSITY
The Bush School
of Government & Public Service

The Tariff Outlook

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The President Has Direct Authority to Raise Tariffs

- A series of Trade Acts—enacted between the 1930s and 1970s—empower the executive branch to proclaim tariff rates to protect American workers and consumers from unfair trade practices
 - To invoke this authority, an investigation is initiated by either the Department of Commerce or the Office of the U.S. Trade Representative to determine whether tariffs are necessary to remedy unfair trade practices
- The International Emergency Economic Powers Act (IEEPA) of 1977
 - Designed to address “unusual and extraordinary” peacetime threats to national security, foreign policy, or the economy

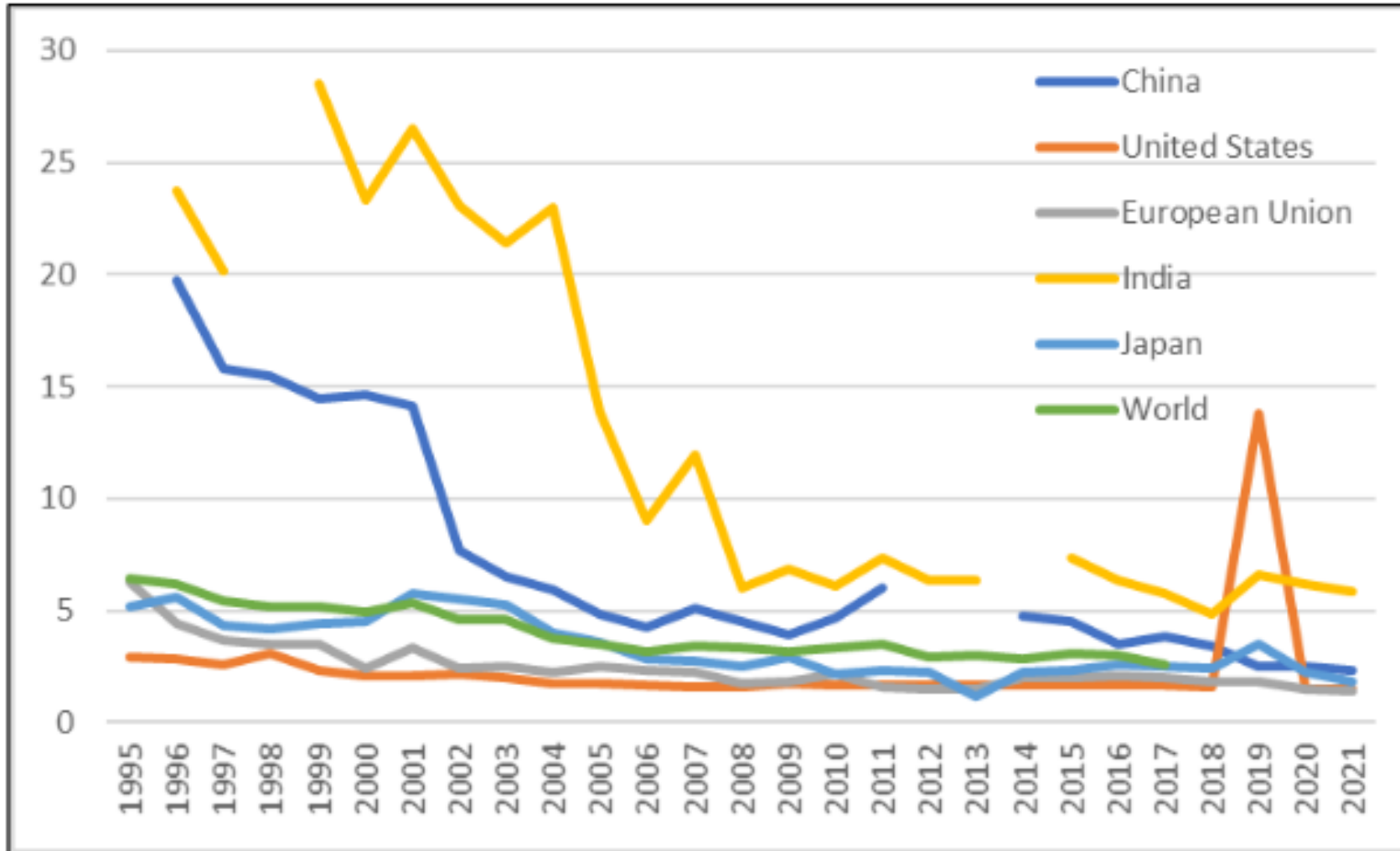


President Trump's Tariff Talk

- 10% tariff across-the-board
- 60% tariff on imports from China
- 25% or more tariff on imports from Mexico and Canada

- Not clear if these proposals are merely a negotiating stance
- Retaliation by our trading partners is likely

Trump's Proposal Represents a Huge Tax Increase



Source: Congressional Research Service. December 19, 2024

2018-19 Tariff Hikes Led to Losses in Economic Activity

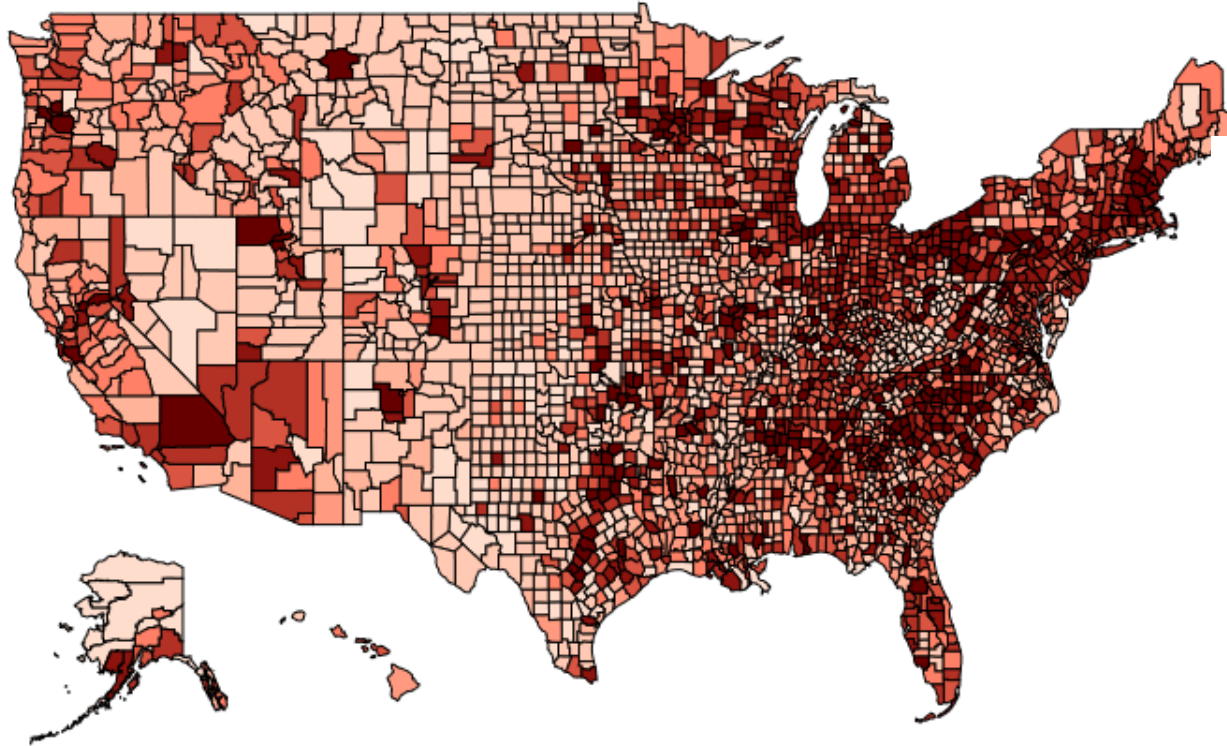
- The Trump Administration levied heavy tariffs on imports in 2018-19
 - Mostly targeting China or specific products such as washing machines, solar panels, iron, steel and aluminum
 - Some of the tariffs removed or reduced in 2020
- The Biden Administration kept most and levied additional tariffs on Chinese goods
- The Tax Foundation estimates those tariffs
 - Raised tariff revenues
 - Reduced employment and economic output
 - Cost each American \$200 to \$300 per year in higher prices

The 2018-19 Tariff Hikes Led to Retaliation

- Retaliatory tariffs resulted in a 9.9% reduction in US exports of targeted products
- Retaliation disproportionately targeted agricultural sectors
- The Great Lakes region and the industrial areas of the Northeast received higher tariff protection, while rural regions of the Midwestern plains and Mountain West received higher tariff retaliation

(A) Tariff Increase on US Imports, 2017–2018

Weighted by Variety-Level U.S. Import Share and County-Level 2016 Tradeable Sector Employee Wage Bill

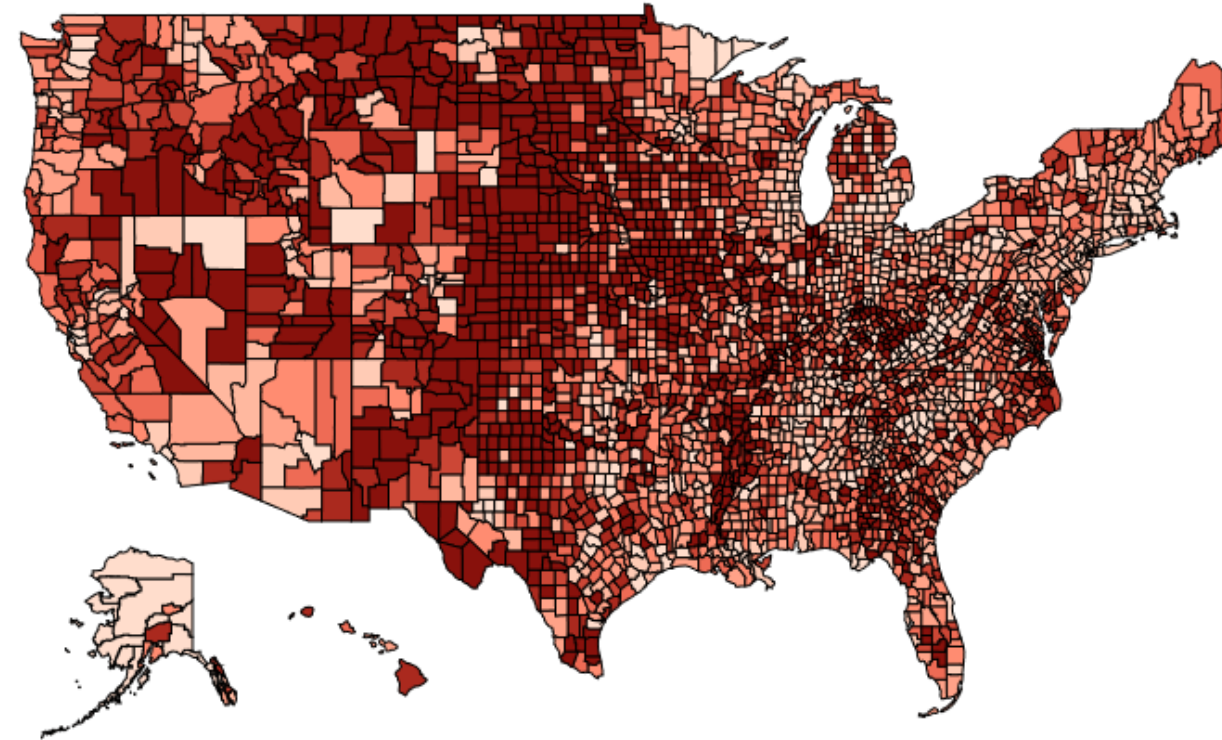


Mean = 1.11 p.p., std = 0.91

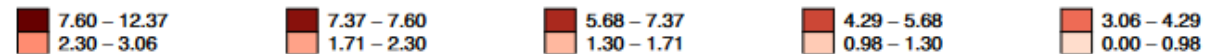


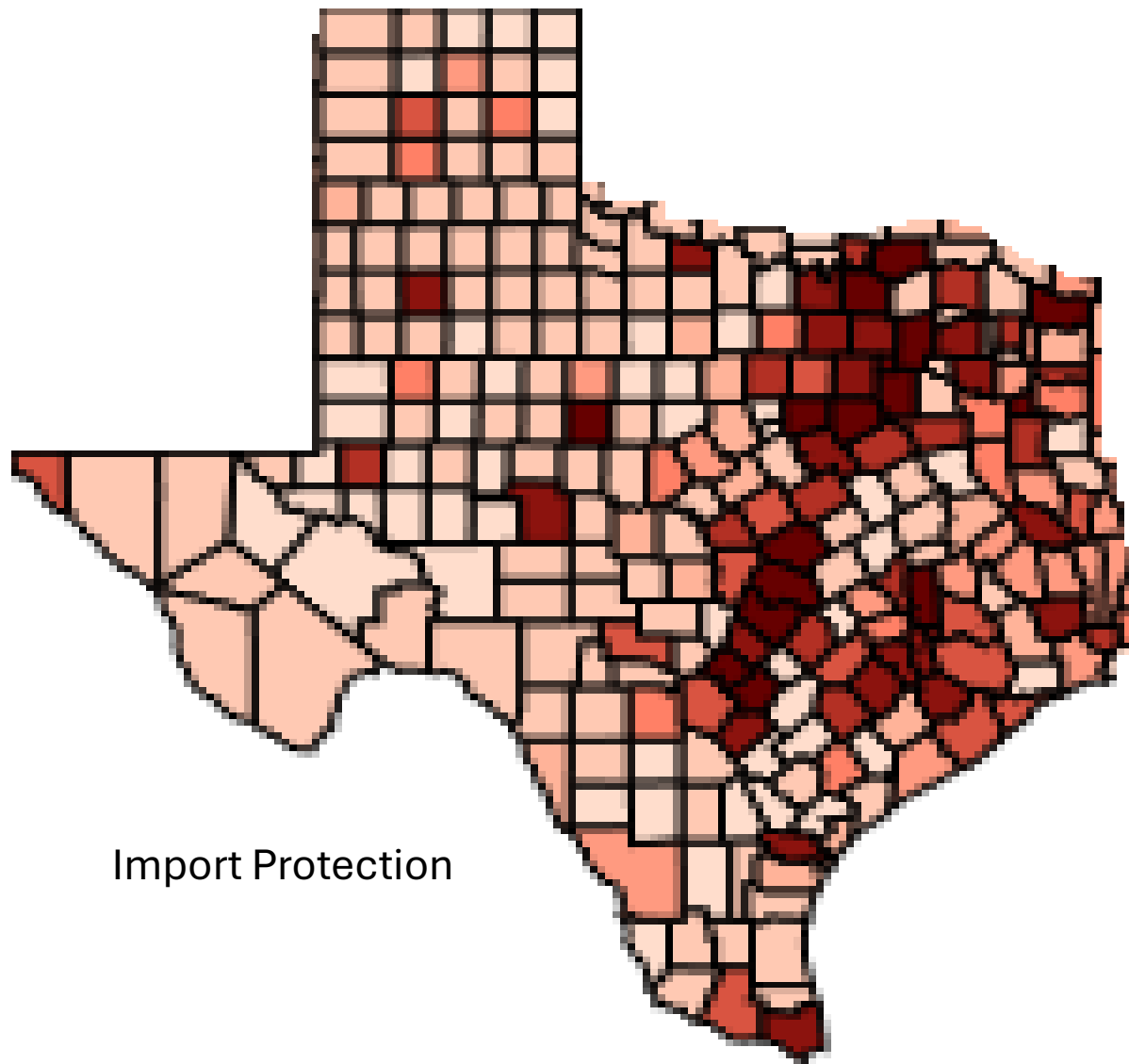
(B) Tariff Increase on US Exports, 2017–2018

Weighted by Variety-Level U.S. Export Share and County-Level 2016 Tradeable Sector Employee Wage Bill

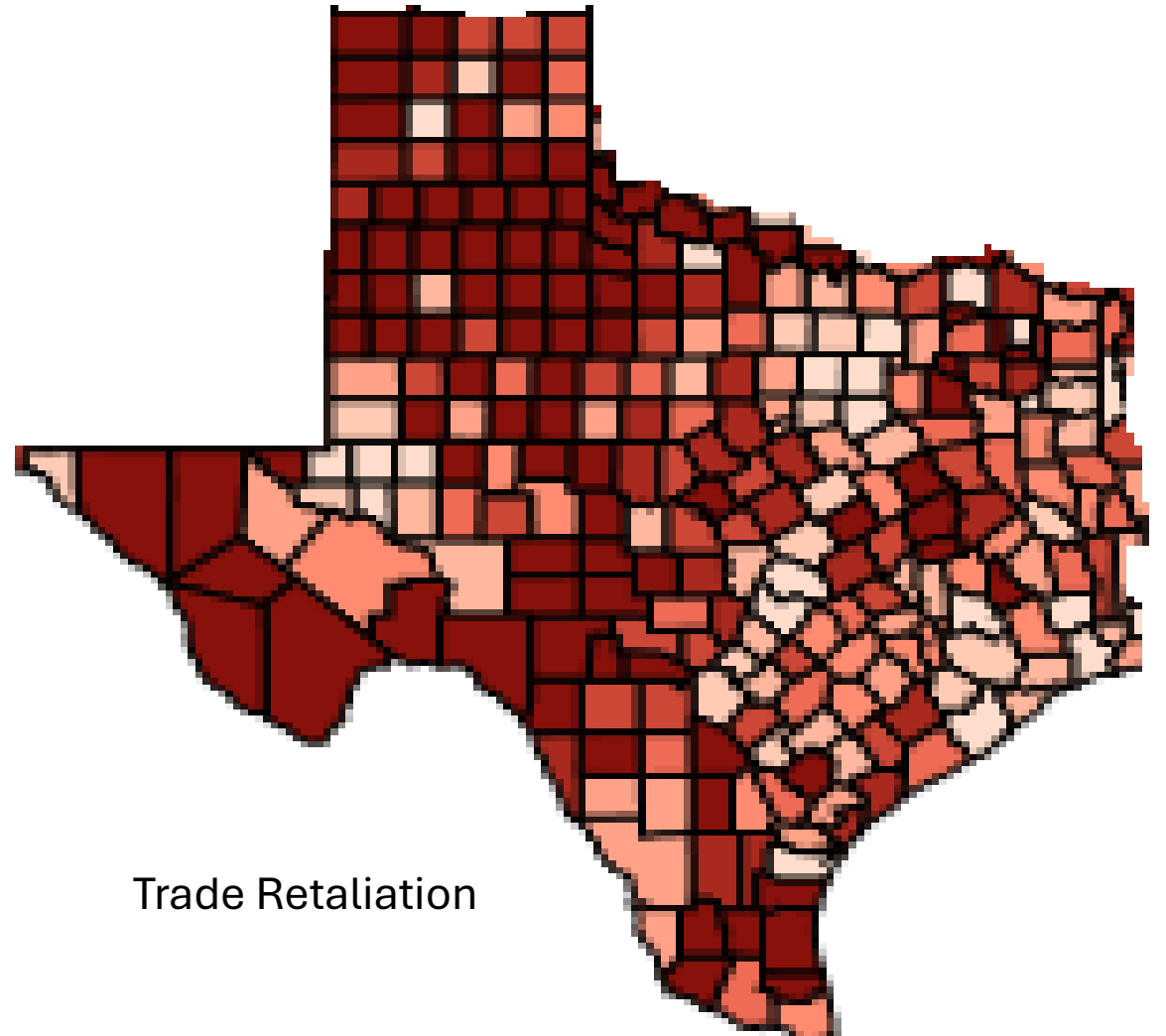


Mean = 4.17 p.p., std = 2.67





Import Protection



Trade Retaliation

Source: *The Quarterly Journal of Economics* (2019)
doi:10.1093/qje/qjz036.

The Real Wage Impact of the 2018-19 Tariffs

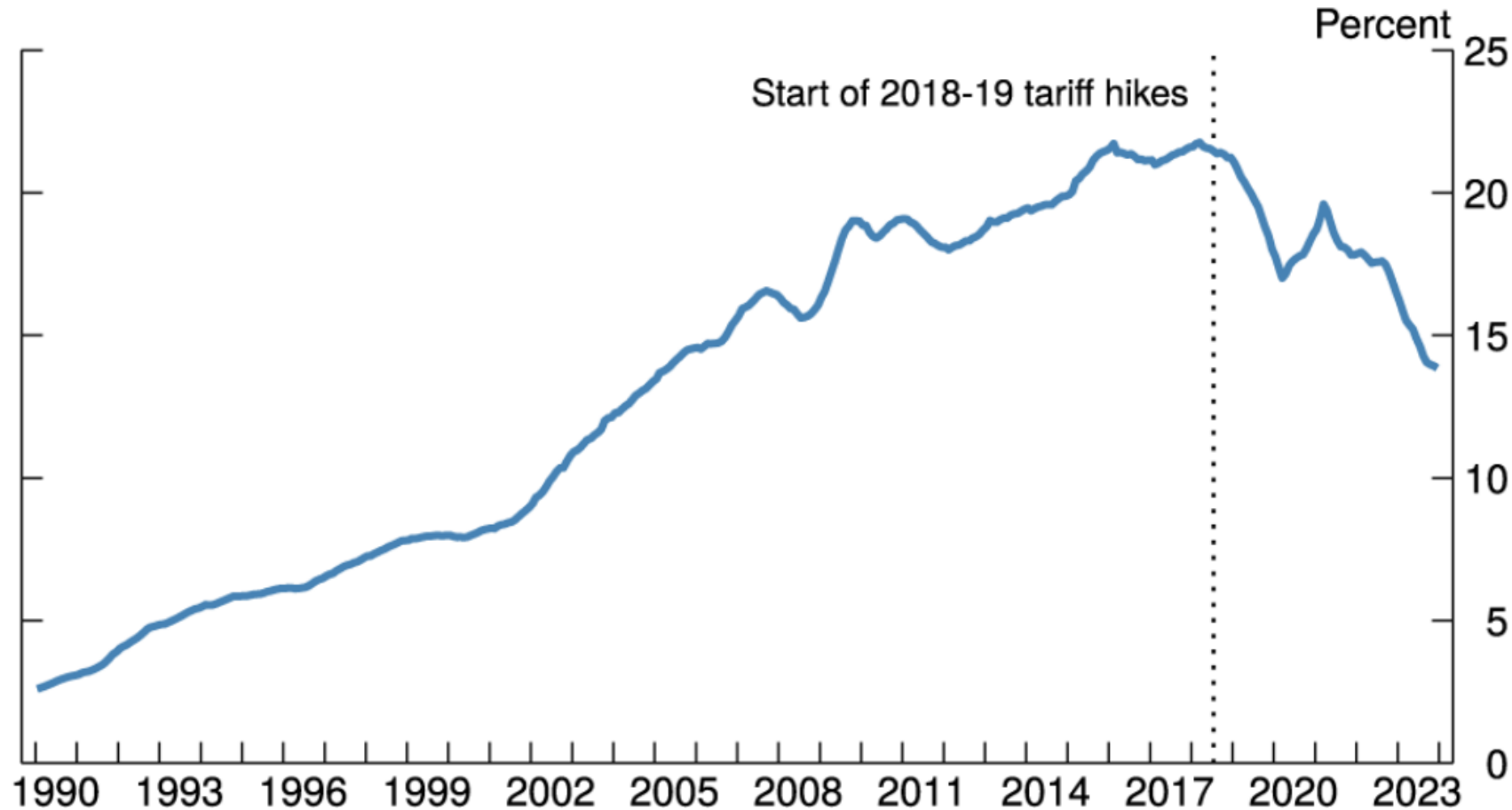
- Nominal wage gains for workers in tradeable sectors
- Income gains more than offset by a higher cost of living
 - The tariffs were fully passed through to US consumers
- Simulations suggest
 - Every US county experienced a reduction in the real wage
 - Brazos County impact was close to the national average, 1.0% decline



Previous Hikes in Tariffs on China Also Led to Significant Trade Diversion

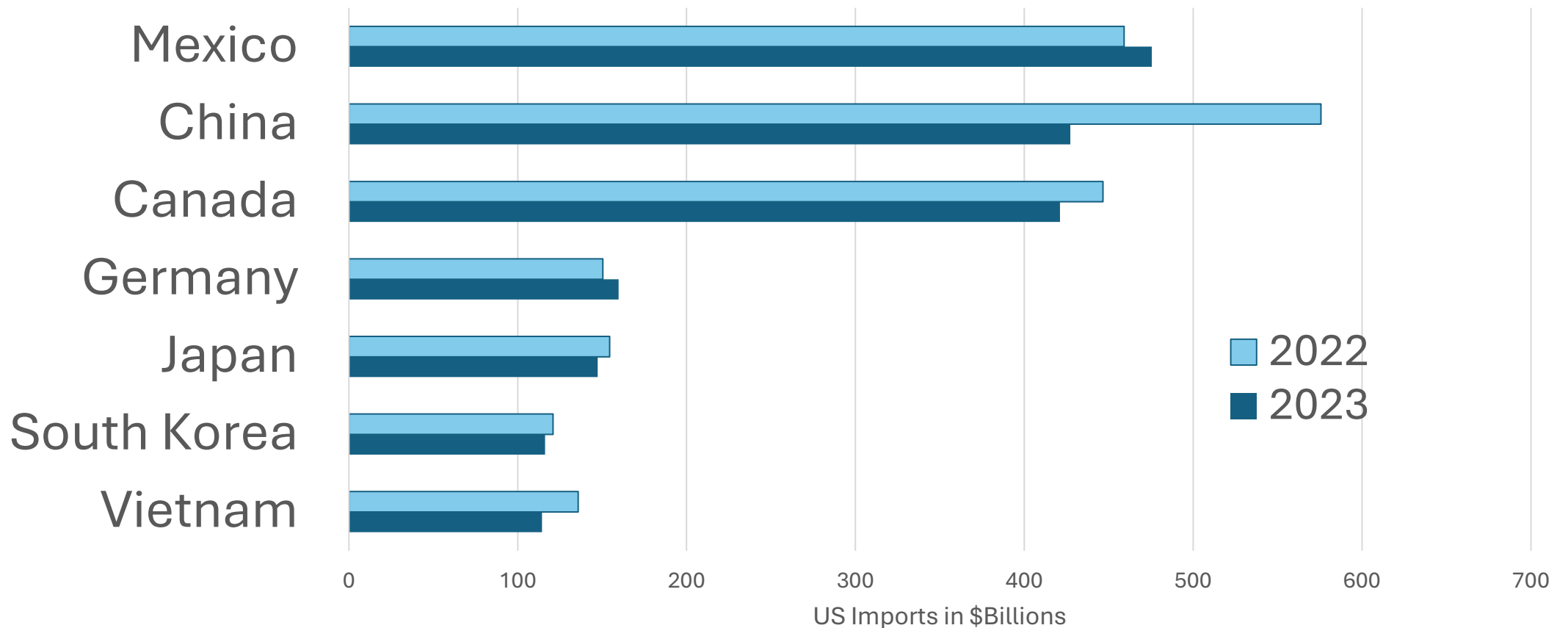
- Increased tariffs led to a shift in U.S. imports from China to U.S. imports from other trading partners
- But the trading partners that the U.S. had shifted to are importing more from China precisely those goods that the U.S. is importing less of from China.

China's Share of US Goods Imports Dropping

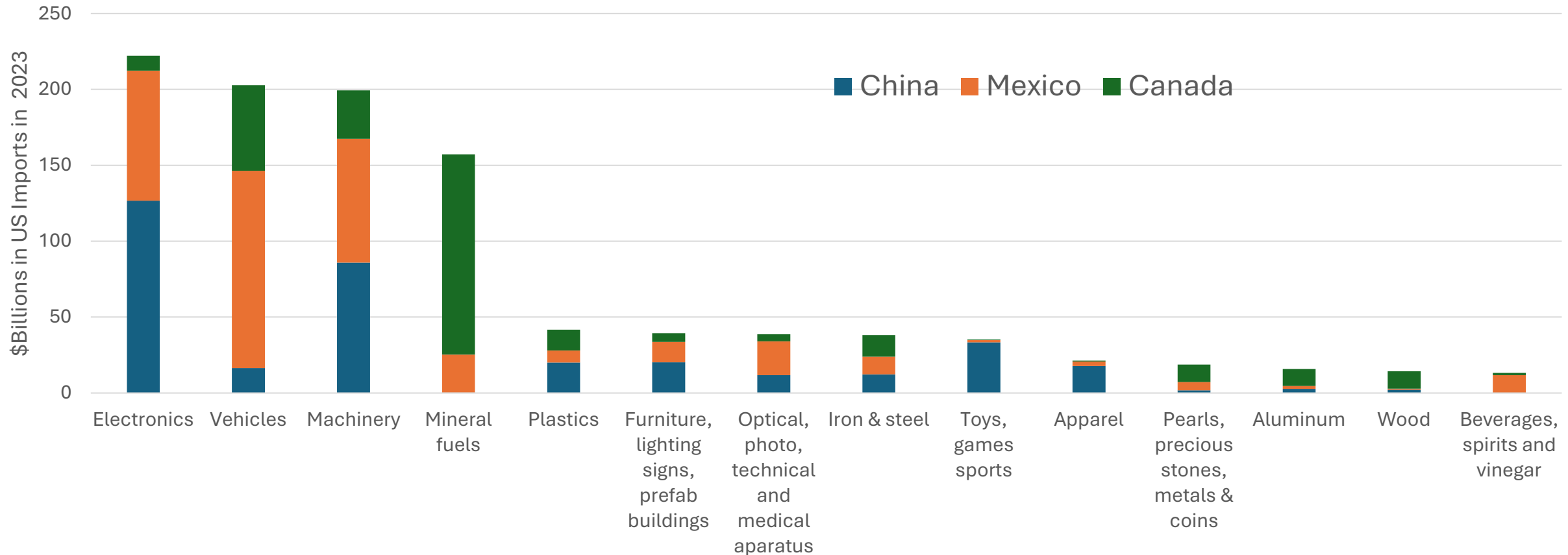


Note: Share is measured over a 12-month rolling window. The data extend through December 2023.

US Top Import Partners in 2022 & 2023

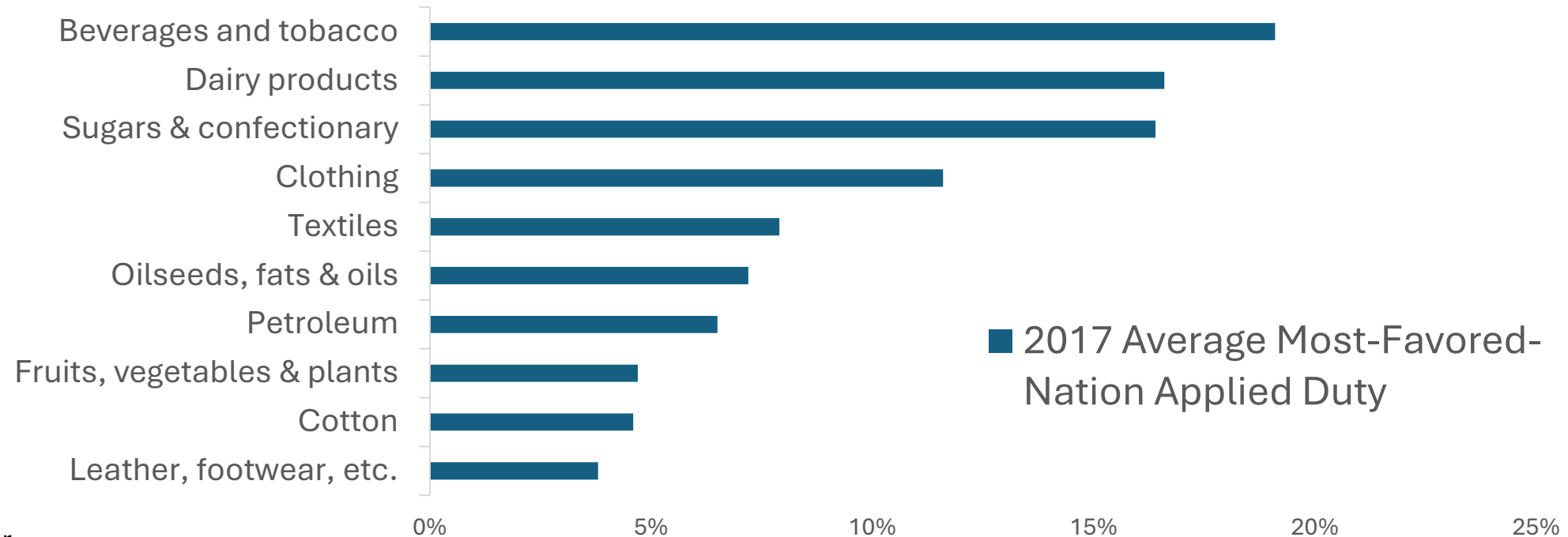


Which Businesses Most Likely to be Affected by Tariffs Targeting China, Canada and Mexico?

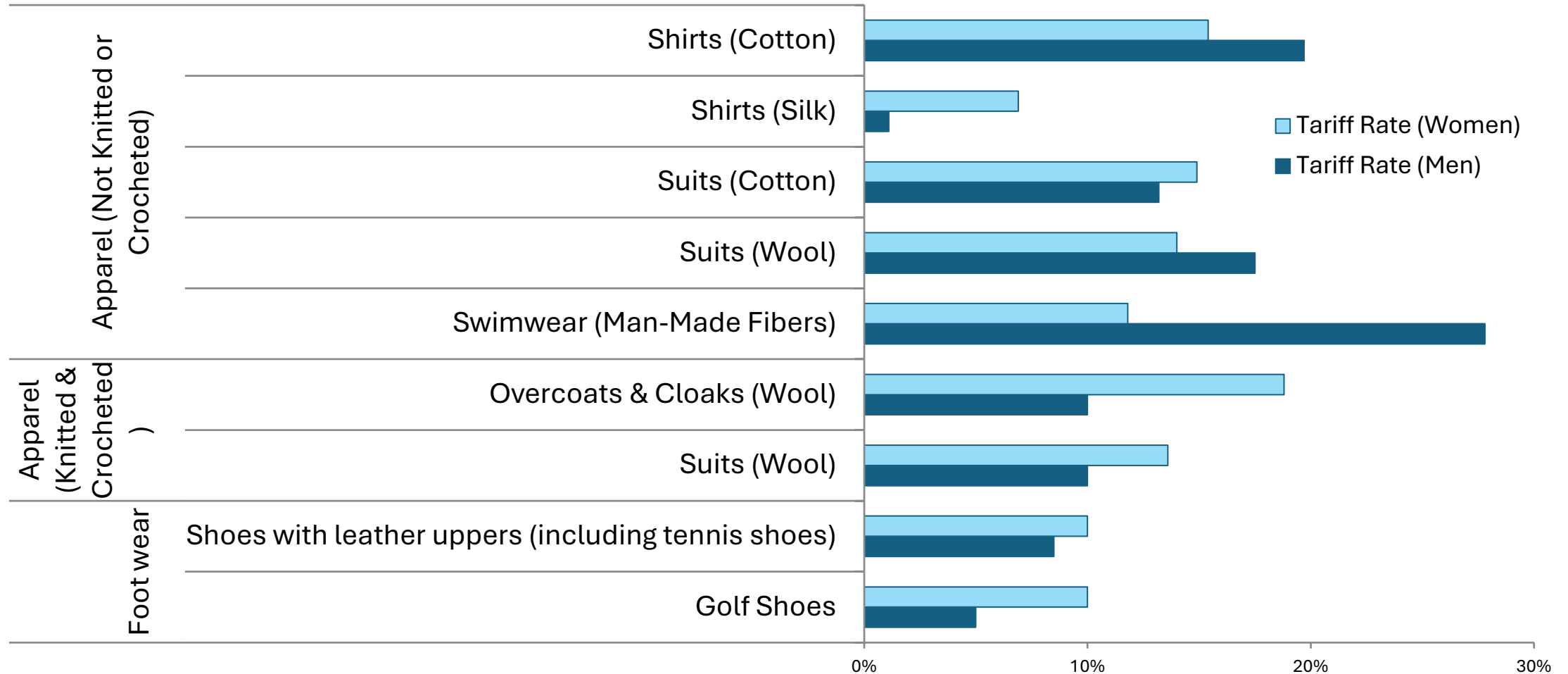


Which Businesses Least Likely to be Affected by Across-the-Board Tariff Hikes?

- Services and other nontraded goods
- Sectors with high tariffs already



Problematic US Tariffs on Apparel and Footwear



Likely Brazos Valley Impact of Trump Tariffs 2.0 (if implemented)

- Sharp increase in prices for tradeable goods
 - Full burden of the tariffs expected to fall on US consumers
 - The Budget Lab at Yale puts this cost at \$1,900 to \$7,600 per household
 - Low-income consumers—such as students—likely to be hardest hit
- Federal Reserve may delay interest rate cuts to fight inflationary impact
- Slower economic growth
- Job losses in import-consuming industries
- Net job losses overall
- Impact on sales tax revenue ambiguous



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Thank you